

Message Text

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ACTION EUR-12

INFO OCT-01 NEA-10 ISO-00 AID-05 CIAE-00 COME-00 EB-07

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TO SECSTATE WASHDC 6289

INFO AMEMBASSY BERN

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E.O. 11652: N/A

TAGS: EFIN, SP

SUBJECT: ONE BILLION DOLLAR LOAN FOR SPAIN

REF: MADRID 4594

1. ACCORDING TO LOCAL US BANK REPS, FINANCING HAS NOW BEEN ARRANGED WITH 17 NON-SPANISH BANKS FOR A \$1 BILLION BALANCE OF PAYMENTS LOAN TO THE GOS, SCHEDULED TO BE SIGNED JULY 28. TERMS ARE 1-3/8 OVER LONDON RATE AND FOR FIVE YEARS OR A LITTLE LONGER, DEPENDING ON RATE OF DRAW DOWN. EACH FOREIGN BANK WILL CONTRIBUTE \$50 MILLION WITH REMAINING \$150 MILLION FROM SPANISH BANKS. AMONG THE US BANKS ARE: MORGAN, CHEMICAL, BANKERS TRUST, CHASE, CITIBANK, BANK OF AMERICA AND POSSIBLY FIRST CHICAGO. FRENCH, ENGLISH, GERMAN AND SWISS BANKS WILL ALSO PARTICIPATE ALONG WITH BANK OF MONTREAL.

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2. GOS OBTAINED PARTICULARLY FAVORABLE TERMS, LESS BECAUSE

THESE BANKS ARE ALL ANXIOUS TO ESTABLISH BRANCHES HERE THAN BECAUSE THEY HAVE EXCESS LIQUIDITY AT PRESENT. HOWEVER, STRONG AND GROWING INTEREST IN BRANCH OPERATIONS HAS CLEARLY PLAYED A ROLE IN WILLINGNESS OF SOME BANKS TO PARTICIPATE.

3. GOS IS ALSO IN THE PROCESS OF SEEKING LONG-TERM CREDITS FROM SAUDI ARABIA AND OTHERS FOR FINANCING OIL IMPORTS. MINISTRY OF FINANCE OFFICIALS ARE NOW IN JIDDA FOR TALKS.

4. THE BILLION DOLLARS ABOUT TO BE PROVIDED BY THE INTERNATIONAL BANK SYNDICATE MAY STILL PROVE INADEQUATE TO COVER SPAIN'S FOREIGN FINANCING NEEDS FOR 1976. IN ADDITION TO AN ESTIMATED \$3 BILLION CURRENT ACCOUNT DEFICIT, SPAIN WILL NEED A FURTHER \$1.6 BILLION (APPROXIMATELY) TO COVER AMORTIZATION PAYMENTS (UP ABOUT A BILLION DOLLARS OVER LEVEL OF PAST TWO ON OUTSTANDING FOREIGN DEBT. YEARS) IF RESERVES ARE DRAWN DOWN BY A BILLION DOLLARS, AS NOW PLANNED, AND PERHAPS ANOTHER BILLION IS OBTAINED FROM IMF AND FROM DIRECT FOREIGN INVESTMENT, SPAIN WILL STILL BE ABOUT A BILLION AND A HALF SHORT.

5. THE TERMS OF THE BANK LOAN AGREEMENT PROHIBIT THE STATE OF SPAIN FROM GOING BACK TO THE MARKET FOR AT LEAST A YEAR BUT WE UNDERSTAND PLACE NO RESTRICTIONS ON GOVERNMENT ORGANIZATIONS LIKE INI OR ICO FROM BORROWING ABROAD. INI IN FACT WILL GO TO MARKET FOR A SMALL AMOUNT IN VERY NEAR FUTURE. NO DOUBT MUCH OF THE REMAINDER NEEDED WILL HAVE TO COME THROUGH LOANS TO THESE KINDS OF GOVERNMENT ENTITIES, BUT WE WOULD NOT BE SURPRISED TO SEE RESERVES DECLINE BY OVER A BILLION TO FINISH THE YEAR AT SOMETHING CLOSER TO \$4.5 BILLION RATHER THAN THE \$5 BILLION FIGURE GENERALLY MENTIONED. STABLER

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